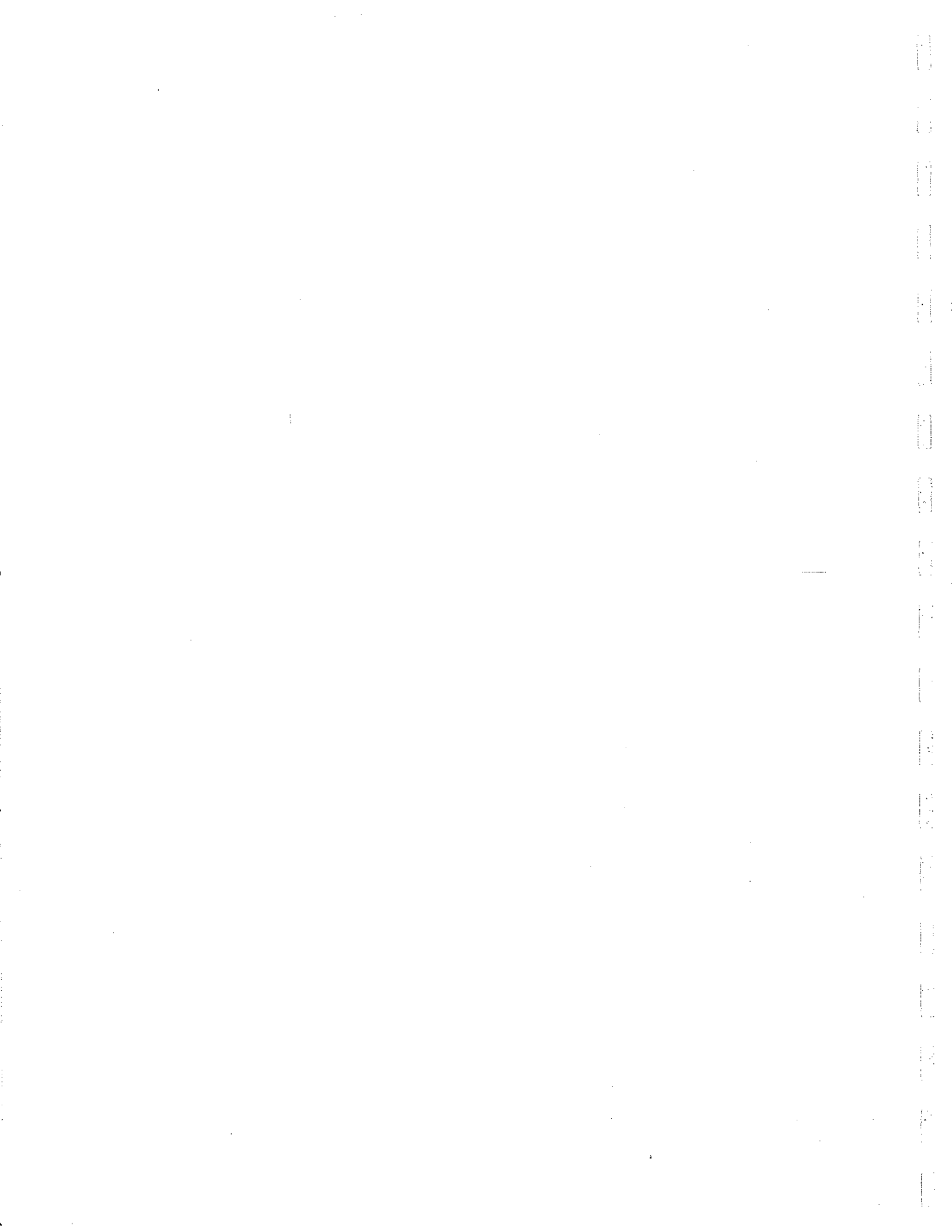


COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Financial Statements and
Supplementary Information

Year ended June 30, 2006



COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements and Supplementary Information

Year ended June 30, 2006

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements and Supplementary Information

Year ended June 30, 2006

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Board of Directors

Community Development Commission of the City of National City
National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Community Development Commission of the City of National City (the "Commission"), a component unit of the City of National City, California as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Community Development Commission of the City of National City. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund financial of the Community Development Commission of the City of National City at June 30, 2006, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented *management's discussion and analysis* that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Board of Directors
Community Development Commission of the City of National City
National City, California
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2006 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mayer Hoffman McLean P.C.

Irvine, California
November 30, 2006

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments (note 5)	\$ 12,843,553	236,753	13,080,306
Cash and investments with fiscal agent (note 5)	4,710,917	1,637,694	6,348,611
Receivables:			
Accounts	145,734	4,940	150,674
Interest	23,900	-	23,900
Taxes	394,887	-	394,887
Loans	1,932,388	-	1,932,388
First time homebuyers loans	1,339,384	-	1,339,384
Prepaid expense	-	69,656	69,656
Deposits	15,449	85,177	100,626
Land held for resale	13,140,136	-	13,140,136
Capital assets (note 6):			
Nondepreciable capital assets	2,050,000	528,382	2,578,382
Depreciable capital assets, net of accumulated depreciation	908,332	8,430,870	9,339,202
Total assets	37,504,680	10,993,472	48,498,152
<u>Liabilities</u>			
Accounts payable and other liabilities	2,168,020	193,522	2,361,542
Accrued salaries and benefits	72,329	-	72,329
Accrued interest payable	172,225	-	172,225
Unearned revenue	114,025	-	114,025
Noncurrent liabilities (note 7):			
Due within one year	2,131,212	158,005	2,289,217
Due in more than one year	44,008,674	3,022,049	47,030,723
Total liabilities	48,666,485	3,373,576	52,040,061
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,958,332	5,779,198	8,737,530
Restricted for low and moderate housing	-	1,840,698	1,840,698
Unrestricted net assets (deficit)	(14,120,137)	-	(14,120,137)
Total net assets (deficit)	\$ (11,161,805)	7,619,896	(3,541,909)

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Activities

Year ended June 30, 2006

		Program Revenues			Total Program Revenues
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
	Expenses				
Governmental activities:					
Low and moderate housing	\$ 50,808	-	-	-	-
Community development	21,196,415	8,866	9,901,196	-	9,910,062
Interest on long-term debt and related charges	<u>1,649,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>22,896,534</u>	<u>8,866</u>	<u>9,901,196</u>	<u>-</u>	<u>9,910,062</u>
Business-type activities:					
Low and moderate housing	2,323,571	972,798	947,605	-	1,920,403
Interest on long-term debt and related charges	<u>211,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,535,540</u>	<u>972,798</u>	<u>947,605</u>	<u>-</u>	<u>1,920,403</u>
Total primary government	<u>\$ 25,432,074</u>	<u>981,664</u>	<u>10,848,801</u>	<u>-</u>	<u>11,830,465</u>

General revenues:

Tax increment

Investment income

Other

Total general revenues

Change in net assets

Net assets (deficit) at beginning of year, as restated (note 15)

Net assets (deficit) at end of year

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
(50,808)	-	(50,808)
(11,286,353)	-	(11,286,353)
<u>(1,649,311)</u>	<u>-</u>	<u>(1,649,311)</u>
<u>(12,986,472)</u>	<u>-</u>	<u>(12,986,472)</u>
-	(403,168)	(403,168)
<u>-</u>	<u>(211,969)</u>	<u>(211,969)</u>
<u>-</u>	<u>(615,137)</u>	<u>(615,137)</u>
<u>(12,986,472)</u>	<u>(615,137)</u>	<u>(13,601,609)</u>
12,082,145	-	12,082,145
354,895	55,320	410,215
<u>1,308,475</u>	<u>-</u>	<u>1,308,475</u>
<u>13,745,515</u>	<u>55,320</u>	<u>13,800,835</u>
759,043	(559,817)	199,226
<u>(11,920,848)</u>	<u>8,179,713</u>	<u>(3,741,135)</u>
<u>\$ (11,161,805)</u>	<u>7,619,896</u>	<u>(3,541,909)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Balance Sheet - Governmental Funds

June 30, 2006

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	Home Loan Program	HOME Program
<u>Assets</u>				
Cash and investments (note 5)	\$ 727,425	-	2,768,963	1,506,302
Cash with fiscal agent (note 5)	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Interest	-	317	-	-
Taxes	-	-	-	-
Loans	1,957	-	586,639	-
First time homebuyers loans	-	-	-	805,027
Due from other funds (note 4)	-	-	-	-
Deposits	-	-	-	-
Land held for resale	-	-	-	1,705,802
Total assets	<u>\$ 729,382</u>	<u>317</u>	<u>3,355,602</u>	<u>4,017,131</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 120,052	94,828	67	68,016
Accrued payroll	-	-	-	-
Due to other funds (note 4)	-	1,324,236	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>120,052</u>	<u>1,419,064</u>	<u>67</u>	<u>68,016</u>
Fund Balances:				
Reserved for:				
Loans receivable	1,957	-	586,639	-
First time homebuyer loan receivables	-	-	-	805,027
Bond requirement	-	-	-	-
Debt service	-	-	-	-
Land held for resale	-	-	-	1,705,802
Undesignated	<u>607,373</u>	<u>(1,418,747)</u>	<u>2,768,896</u>	<u>1,438,286</u>
Total fund balances	<u>609,330</u>	<u>(1,418,747)</u>	<u>3,355,535</u>	<u>3,949,115</u>
Total liabilities and fund balances	<u>\$ 729,382</u>	<u>317</u>	<u>3,355,602</u>	<u>4,017,131</u>

See accompanying notes to the basic financial statements.

Special Revenue Funds		Debt Service Fund	Capital Project Fund	Totals
Nutrition Program	Low and Moderate Income Housing Program	Redevelopment Fund	Redevelopment Fund	Governmental Funds
-	3,422,567	-	4,418,296	12,843,553
-	-	2,739,122	1,971,795	4,710,917
69,391	-	-	76,343	145,734
-	-	-	23,583	23,900
-	78,977	-	315,910	394,887
-	1,000,000	-	343,792	1,932,388
-	534,357	-	-	1,339,384
-	-	-	2,532,622	2,532,622
-	-	-	15,449	15,449
-	360,000	-	11,074,334	13,140,136
<u>69,391</u>	<u>5,395,901</u>	<u>2,739,122</u>	<u>20,772,124</u>	<u>37,078,970</u>
21,032	67	-	1,863,958	2,168,020
-	-	-	72,329	72,329
1,208,386	-	-	-	2,532,622
14,025	-	-	100,000	114,025
<u>1,243,443</u>	<u>67</u>	<u>-</u>	<u>2,036,287</u>	<u>4,886,996</u>
-	1,000,000	-	343,792	1,932,388
-	534,357	-	-	1,339,384
-	-	-	-	-
-	-	2,739,122	-	2,739,122
-	360,000	-	11,074,334	13,140,136
(1,174,052)	3,501,477	-	7,317,711	13,040,944
<u>(1,174,052)</u>	<u>5,395,834</u>	<u>2,739,122</u>	<u>18,735,837</u>	<u>32,191,974</u>
<u>69,391</u>	<u>5,395,901</u>	<u>2,739,122</u>	<u>20,772,124</u>	<u>37,078,970</u>

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Reconciliation of the Balance Sheet of Governmental Funds
to the Government-Wide Statement of Net Assets

June 30, 2006

Fund balances of governmental funds	\$ 32,191,974
-------------------------------------	---------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets, net of depreciation, have not been included as financial
resources in governmental fund activity.

Capital assets	4,581,163
Accumulated depreciation	(1,622,831)

Long term debt and compensated absences have not been included in the
governmental funds:

Tax allocation bonds payable	(45,885,000)
Compensated absences	(254,886)

Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	<u>(172,225)</u>
---	------------------

Net assets (deficit) of governmental activities	<u>\$ (11,161,805)</u>
---	------------------------

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the year ended June 30, 2006

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	Home Loan Program	HOME Program
Revenues:				
Property taxes	\$ -	-	-	-
Subventions and grants	1,324,219	7,967,957	-	280,825
HILP payments	224	-	-	8,642
Interest income	-	13,384	22,314	-
Other income	-	-	853	-
Total revenues	<u>1,324,443</u>	<u>7,981,341</u>	<u>23,167</u>	<u>289,467</u>
Expenditures:				
Current:				
Personnel services	13,444	771,859	988	77,966
Special services	105,676	338,965	5,000	-
Community development	405,508	7,532,354	685	150,714
Capital outlay	-	4,507	-	-
Debt Service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>524,628</u>	<u>8,647,685</u>	<u>6,673</u>	<u>228,680</u>
Excess (deficiency) of revenues over (under) expenditures	799,815	(666,344)	16,494	60,787
Other financing sources (uses):				
Transfers in (note 3)	-	-	-	-
Transfers out (note 3)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	799,815	(666,344)	16,494	60,787
Fund balance (deficit), beginning of year, as restated (note 15)	<u>(190,485)</u>	<u>(752,403)</u>	<u>3,339,041</u>	<u>3,888,328</u>
Fund balance (deficit), end of year	<u>\$ 609,330</u>	<u>(1,418,747)</u>	<u>3,355,535</u>	<u>3,949,115</u>

See accompanying notes to the basic financial statements.

Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total
Nutrition Program	Low and Moderate Income Housing Program	Redevelopment Fund	Redevelopment Fund	Governmental Funds
-	2,416,429	-	9,665,716	12,082,145
290,460	-	-	37,735	9,901,196
-	-	-	-	8,866
-	19,305	-	299,892	354,895
222,155	276,101	-	809,366	1,308,475
<u>512,615</u>	<u>2,711,835</u>	<u>-</u>	<u>10,812,709</u>	<u>23,655,577</u>
479,174	43,738	-	1,813,184	3,200,353
43,520	7,070	-	2,495,741	2,995,972
358,996	-	-	6,470,298	14,918,555
-	-	-	71,682	76,189
-	-	2,395,000	-	2,395,000
-	-	2,127,416	-	2,127,416
<u>881,690</u>	<u>50,808</u>	<u>4,522,416</u>	<u>10,850,905</u>	<u>25,713,485</u>
(369,075)	2,661,027	(4,522,416)	(38,196)	(2,057,908)
-	-	4,522,416	-	4,522,416
-	(917,066)	-	(3,605,350)	(4,522,416)
-	(917,066)	4,522,416	(3,605,350)	-
(369,075)	1,743,961	-	(3,643,546)	(2,057,908)
<u>(804,977)</u>	<u>3,651,873</u>	<u>2,739,122</u>	<u>22,379,383</u>	<u>34,249,882</u>
<u>(1,174,052)</u>	<u>5,395,834</u>	<u>2,739,122</u>	<u>18,735,837</u>	<u>32,191,974</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Government-Wide Statements of Activities

Year ended June 30, 2006

Changes in fund balances of governmental funds	\$ (2,057,908)
--	----------------

Amounts reported for governmental activities in the statement of activities
differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the costs of those assets is allocated over their
estimated useful lives as depreciation expense.

Depreciation expense	(81,667)
----------------------	----------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,395,000
---	-----------

The statement of activities includes accrued interest on long-term debt.	478,105
--	---------

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>25,513</u>
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Change in net assets of governmental activities	<u><u>\$ 759,043</u></u>
---	--------------------------

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets - Enterprise Funds

June 30, 2006

	<u>Kimball Towers</u>	<u>Morgan Towers</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and investments (notes 2 and 5)	\$ 215,754	20,999	236,753
Accounts receivable	4,940	-	4,940
Prepaid expense	33,390	36,266	69,656
Deposits	<u>44,572</u>	<u>40,605</u>	<u>85,177</u>
Total current assets	<u>298,656</u>	<u>97,870</u>	<u>396,526</u>
Restricted cash and investments with fiscal agent (notes 2 and 5)	<u>890,919</u>	<u>746,775</u>	<u>1,637,694</u>
Noncurrent assets:			
Capital assets (note 6):			
Nondepreciable assets	315,814	212,568	528,382
Depreciable capital assets, net of accumulated depreciation	<u>5,164,982</u>	<u>3,265,888</u>	<u>8,430,870</u>
Total capital assets	<u>5,480,796</u>	<u>3,478,456</u>	<u>8,959,252</u>
Total assets	<u>6,670,371</u>	<u>4,323,101</u>	<u>10,993,472</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	54,805	53,540	108,345
Notes payable-due within one year (note 7)	<u>-</u>	<u>158,005</u>	<u>158,005</u>
Total current liabilities	<u>54,805</u>	<u>211,545</u>	<u>266,350</u>
Noncurrent liabilities:			
Tenant security deposit liability	44,572	40,605	85,177
Note Payable-due in more than one year (note 7)	<u>-</u>	<u>3,022,049</u>	<u>3,022,049</u>
Total noncurrent liabilities	<u>44,572</u>	<u>3,062,654</u>	<u>3,107,226</u>
Total liabilities	<u>99,377</u>	<u>3,274,199</u>	<u>3,373,576</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	5,480,796	298,402	5,779,198
Restricted for:			
Housing	<u>1,090,198</u>	<u>750,500</u>	<u>1,840,698</u>
Total net assets	<u>\$ 6,570,994</u>	<u>1,048,902</u>	<u>7,619,896</u>

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds

Year ended June 30, 2006

	Kimball Towers	Morgan Towers	Total
Operating revenues:			
Rental income	\$ 498,868	458,641	957,509
Section 8 housing assistance payments	383,672	563,933	947,605
Other	<u>7,372</u>	<u>7,917</u>	<u>15,289</u>
Total operating revenues	<u>889,912</u>	<u>1,030,491</u>	<u>1,920,403</u>
Operating expenses:			
Maintenance and operation	1,138,691	807,278	1,945,969
Depreciation	<u>187,350</u>	<u>190,252</u>	<u>377,602</u>
Total operating expenses	<u>1,326,041</u>	<u>997,530</u>	<u>2,323,571</u>
Operating income (loss)	<u>(436,129)</u>	<u>32,961</u>	<u>(403,168)</u>
Nonoperating revenues (expenses):			
Interest income	30,685	24,635	55,320
Interest expense	<u>-</u>	<u>(211,969)</u>	<u>(211,969)</u>
Total nonoperating revenues (expense)	<u>30,685</u>	<u>(187,334)</u>	<u>(156,649)</u>
Change in net assets	(405,444)	(154,373)	(559,817)
Net assets at beginning of year	<u>6,976,438</u>	<u>1,203,275</u>	<u>8,179,713</u>
Net assets at end of year	<u>\$ 6,570,994</u>	<u>1,048,902</u>	<u>7,619,896</u>

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Cash Flows - Enterprise Funds

Year ended June 30, 2006

	<u>Kimball Towers</u>	<u>Morgan Towers</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers and government agencies	\$ 889,912	1,030,491	1,920,403
Cash payments to employees for services	-	(266,907)	(266,907)
Cash payments to suppliers for goods and services	<u>(1,120,073)</u>	<u>(526,225)</u>	<u>(1,646,298)</u>
Net cash provided by (used for) operating activities	<u>(230,161)</u>	<u>237,359</u>	<u>7,198</u>
Cash flows from investing activities:			
Purchase of property plant and equipment	<u>-</u>	<u>(295,389)</u>	<u>(295,389)</u>
Net cash provided by (used for) investing activities	<u>-</u>	<u>(295,389)</u>	<u>(295,389)</u>
Cash flows from financing activities:			
Principal payments on note payable	-	(148,087)	(148,087)
Interest income	30,685	24,635	55,320
Interest expense	<u>-</u>	<u>(211,969)</u>	<u>(211,969)</u>
Net cash provided by (used for) financing activities	<u>30,685</u>	<u>(335,421)</u>	<u>(304,736)</u>
Increase (decrease) in cash and investments	(199,476)	(393,451)	(592,927)
Cash and investments (including cash and investments with fiscal agent):			
Beginning of year	1,306,149	1,161,225	2,467,374
End of year	<u>\$ 1,106,673</u>	<u>767,774</u>	<u>1,874,447</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	(436,129)	32,961	(403,168)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	187,350	190,252	377,602
(Increase) decrease in accounts receivable	(3,376)	-	(3,376)
(Increase) decrease in prepaid expenses	(1,171)	(1,029)	(2,200)
(Increase) decrease in deposits	(2,878)	(1,903)	(4,781)
Increase (decrease) in accounts payable and accrued liabilities	23,165	15,175	38,340
Increase (decrease) in tenant security deposit liability	<u>2,878</u>	<u>1,903</u>	<u>4,781</u>
Total adjustments	<u>205,968</u>	<u>204,398</u>	<u>410,366</u>
Net cash provided by (used for) operating activities	<u>\$ (230,161)</u>	<u>237,359</u>	<u>7,198</u>

Noncash investing, capital and financing activities

There were no significant noncash investing, capital or financing activities for the year ended June 30, 2006.

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

Year ended June 30, 2006

(1) Summary of Significant Accounting Policies

The basic financial statements of the Community Development Commission of the City of National City (the "Commission"), a component unit of the City of National City (the "City"), have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of the Commission.

(a) Description of the Reporting Entity

The Community Development Commission of the City of National City (the "Commission") was established in April 1967 pursuant to provisions of the California Health and Safety Code. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City") and, accordingly, is a component unit of the City, although it is a separate legal entity. The Commission's primary purpose is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational and public facilities and to assist neighborhood redevelopment through residential property improvement loans and housing assistance payments to low and moderate income earners. The Commission accounts for its financial position and operations in accordance with generally accepted accounting principles in the United States applicable to governmental units.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government – Wide Financial Statements

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Government – Wide Financial Statements, (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the Commission's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Commission in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Interfund transfers have been eliminated as prescribed by GASB Statement No. 34 in regards to interfund activities.

Fund Financial Statements

The underlying accounting system of the Commission is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Commission's governmental and proprietary funds are presented after the government-wide financial statements. An accompanying schedule is presented for the governmental funds to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all major funds that met the applicable criteria.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses a sixty day availability period. The primary revenue sources, which have been treated as susceptible to accrual by the Commission, are property tax, special assessments, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of *available spendable resources*. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of *available spendable resources* during a period.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of the GASB Statement No. 34.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Proprietary Funds

The Commission's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Kimball Towers and Morgan Towers are charges to tenants for housing low and moderate income seniors, which is subsidized with Federal government funds under a Section 8 contract with the U.S. Department of Housing and Urban Development. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expenditure.

Major Funds

The Commission reports the following major governmental funds:

Community Development Block Grant – To account for activities related to the annual grant from the Department of Housing and Urban Development to assist in developing viable urban community by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low and moderate income persons.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Major Funds, (Continued)

Section 8 Housing Assistance – To provide rental assistance to low income families by subsidizing a portion of the rent directly to landlords on behalf of low income households.

Home Loan Program – To provide home improvement loans to low and moderate income families that meet certain conditions to qualify for the loan.

HOME Program – To account for activities related to the annual grant from the Department of Housing and Urban Development to administer programs designed to provide decent affordable housing, expand capacity of nonprofit housing providers, and to leverage private sector participation.

Nutrition Program – This program provides a friendly setting for low income and minority seniors to have a nutritionally balanced meal. The Nutrition Council and volunteers provide an effective framework to assist in the meal distribution, solicitation of funds and social services needs of clients.

Low and Moderate Income Housing Program – To account for the tax increment which is required to be set aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing.

Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of principal, interest, and related costs of the Commission's long-term debt.

Redevelopment Capital Projects Fund – To account for the administrative expenditures of the Commission and redevelopment capital projects.

In addition, the Commission also reports the following major proprietary funds:

Kimball Towers – To account for the activities relating to the operations of Kimball Tower which use is restricted to housing low and moderate income seniors.

Morgan Towers – To account for the activities relating to the operations of Morgan Tower which use is restricted to housing low and moderate income seniors.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(c) Cash and Investments

The Commission's investment policy authorizes deposits in any of the approved investments contained in the California Government Code Sections 53600 et seq. During the year ended June 30, 2006, the Commission complied with these policies.

Investment income earned on unrestricted cash is allocated to the Commission's various funds as required by grant/loan agreements or at the Board's discretion.

The Commission pools its available cash with the City for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Commission participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

(d) Land Held for Resale

Land held for resale is recorded at the lower of cost or estimated net realizable value. Fund balances are reserved in amounts equal to the carrying value of land and buildings held for resale, because such assets are not available to finance the Commission's current operations

(e) Use of Restricted/Net Assets

When an expense is incurred for purposes for which both restricted net assets are available, the Commission's policy is to apply restricted net assets first.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

(g) Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Rather, interest expense is simply recorded when it is due or paid.

(h) Long-Term Liabilities

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the primary government's governmental activity.

Fund Financial Statements – The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

(i) Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Fund Balances – Reservations and Designations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) Property Tax Increments

One of the Commission's primary sources of revenue is from property tax increments. The assessed valuation of all property within the Downtown Redevelopment Project area was determined on the date of adoption of the Redevelopment Plan. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Commission; all taxes on the "frozen" assessed valuation of the property are allocated to the City and unrelated taxing agencies.

(l) Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) Enterprise Fund Restricted Cash

In accordance with Department of Housing and Urban Development (HUD) requirements, the Morgan Towers Enterprise Fund maintains the following restricted cash accounts:

- Reserve for replacements of \$548,606 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.
- Residual receipts reserve of \$177,623 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- Reserve for property tax, MIP and insurance impounds of \$3,091, \$13,372 and \$4,083, respectively, totaling \$20,546, which represents amounts held for the future payment of property tax, property and mortgage insurance.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(2) Enterprise Fund Restricted Cash, (Continued)

Additionally, the Kimball Towers Enterprise Fund maintains the following HUD restricted cash accounts:

- Residual receipts reserve of \$268,964 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- Other restricted cash and investments totaling \$621,955 are included in the accompanying basic financial statements.

(3) Transfers In/Transfers Out

The following schedule summarizes the Commission's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Redevelopment Debt Service Fund	Redevelopment Capital Projects Fund	\$ 3,605,350 (a)
	Low and Moderate Income Housing Fund	<u>917,066 (b)</u>
Total		<u>\$ 4,522,416</u>

- (a) The Redevelopment Capital Projects Fund provided funds to the Redevelopment Debt Service Fund to fund debt service payments made during the fiscal year.
- (b) The Low and Moderate Income Housing Fund transferred \$917,066 to the Redevelopment Debt Service Fund to fund a portion of the 1999 Tax Allocation Bonds debt service payments that related to low and moderate development.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(4) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2006 are as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Redevelopment Capital Projects Fund	Section 8 Housing Assistance Fund	\$ 1,324,236
	Nutrition Fund	<u>1,208,386</u>
Total		<u>\$ 2,532,622</u>

Interfund receivables and payables were created in order to eliminate deficit cash balances.

(5) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 13,080,306
Cash and investments with fiscal agent	<u>6,348,611</u>
Total cash and investments	<u>\$ 19,428,917</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 800
Deposits with financial institutions	7,174,049
Investments	<u>12,254,068</u>
Total cash and investments	<u>\$ 19,428,917</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the Commission's investment policy. The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by fiscal agent that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the Commission's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment in One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are generally authorized for investments held by fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	None	None	None
Mortgage Pass-Through Securities	None	None	None
State Bonds or Notes	None	None	None
Municipal Bonds or Notes	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Commission's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
U.S. Treasury Obligations	\$ 417,093	417,093	-	-
U.S. Agency Securities	2,584,845	1,920,294	-	664,551
Negotiable Certificates of Deposit	2,854,214	1,370,271	658,895	825,048
Local Agency Investment Fund (LAIF)	1,686,999	1,686,999	-	-
Held by Fiscal Agent:				
Commercial Paper	2,345,000	2,345,000	-	-
Money Market Funds	<u>2,365,917</u>	<u>2,365,917</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,254,068</u>	<u>10,105,574</u>	<u>658,895</u>	<u>1,489,599</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>A</u>	<u>AAA</u>	<u>Not Rated</u>
U.S. Treasury Obligations	\$ 417,093	AAA	-	417,093	-
U.S. Agency Securities	2,584,845	AAA	-	2,584,845	-
Negotiable Certificates of Deposit	2,854,214	N/A	-	-	2,854,214
Local Agency Investment Fund (LAIF)	1,686,999	N/A	-	-	1,686,999
Held by Fiscal Agent:					
Commercial Paper	2,345,000	A	-	-	2,345,000
Money Market Funds	<u>2,365,917</u>	A	<u>2,365,917</u>	<u>-</u>	<u>-</u>
Total	<u>\$12,254,068</u>		<u>2,365,917</u>	<u>3,001,938</u>	<u>6,886,213</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Commission investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Agency Securities	\$ 2,016,930
General Electric	Commercial Paper	2,345,000

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2006, none of the Commission's deposits with financial institutions that were in excess of federal depository insurance limits were held in uncollateralized accounts.

As of June 30, 2006, Commission investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Commission to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Agency Securities	\$2,584,845
Negotiable Certificates of Deposit	2,854,214

For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(6) Capital Assets

The following is a summary of capital assets for the year ended June 30, 2006:

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
<u>Government Activities:</u>				
Capital assets:				
Buildings and improvements	\$ 2,450,000	-	-	2,450,000
Machinery and equipment	<u>81,163</u>	<u>-</u>	<u>-</u>	<u>81,163</u>
Total cost of depreciable capital assets	<u>2,531,163</u>	<u>-</u>	<u>-</u>	<u>2,531,163</u>
Less accumulated depreciation:				
Buildings and improvements	(1,460,001)	(81,667)	-	(1,541,668)
Machinery and equipment	<u>(81,163)</u>	<u>-</u>	<u>-</u>	<u>(81,163)</u>
Total accumulated depreciation	<u>(1,541,164)</u>	<u>(81,667)</u>	<u>-</u>	<u>(1,622,831)</u>
Depreciable capital assets, net	989,999	(81,667)	-	908,332
Capital assets not depreciated:				
Land	<u>2,050,000</u>	<u>-</u>	<u>-</u>	<u>2,050,000</u>
Capital assets, net	<u>\$ 3,039,999</u>	<u>(81,667)</u>	<u>-</u>	<u>2,958,332</u>

Depreciation expense in governmental activities for capital assets for the year ended June 30, 2006 was \$81,667 which was allocated to community development.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
<u>Business-Type Activities:</u>				
Depreciable assets:				
Buildings and improvements	\$ 15,214,558	287,105	-	15,501,663
Furniture and equipment	<u>261,831</u>	<u>8,284</u>	<u>-</u>	<u>270,115</u>
Total cost of depreciable assets	<u>15,476,389</u>	<u>295,389</u>	<u>-</u>	<u>15,771,778</u>
Less accumulated depreciation:				
Buildings and improvements	(6,918,771)	(373,811)	-	(7,292,582)
Furniture and equipment	<u>(44,535)</u>	<u>(3,791)</u>	<u>-</u>	<u>(48,326)</u>
Total accumulated depreciation	<u>(6,963,306)</u>	<u>(377,602)</u>	<u>-</u>	<u>(7,340,908)</u>
Depreciable capital assets, net	8,513,083	(82,213)	-	8,430,870
Capital assets not depreciated:				
Land	<u>528,382</u>	<u>-</u>	<u>-</u>	<u>528,382</u>
Capital assets, net	<u>\$ 9,041,465</u>	<u>(82,213)</u>	<u>-</u>	<u>8,959,252</u>

Depreciation expense in business-type activities for capital assets for the year ended June 30, 2006 was \$377,602, which was allocated to low and moderate housing.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>	Amounts Due Within <u>One Year</u>	Amount Due Beyond <u>One Year</u>
Governmental Activities:						
Bonds payable:						
1999 Tax Allocation Bonds	\$ 4,640,000	-	(100,000)	4,540,000	105,000	4,435,000
2004 Series Tax Allocation Bonds	5,860,000	-	(220,000)	5,640,000	245,000	5,395,000
2005 Series A Tax Allocation Bonds	27,940,000	-	(2,075,000)	25,865,000	1,650,000	24,215,000
2005 Series B Tax Allocation Bonds	<u>9,840,000</u>	<u>-</u>	<u>-</u>	<u>9,840,000</u>	<u>-</u>	<u>9,840,000</u>
Total bonds payable	48,280,000	-	(2,395,000)	45,885,000	2,000,000	43,885,000
Compensated absences	<u>280,399</u>	<u>118,833</u>	<u>(144,346)</u>	<u>254,886</u>	<u>131,212</u>	<u>123,674</u>
Total governmental activities	48,560,399	118,833	(2,539,346)	46,139,886	2,131,212	44,008,674
Business-Type Activities:						
Notes Payable	<u>3,328,141</u>	<u>-</u>	<u>(148,087)</u>	<u>3,180,054</u>	<u>158,005</u>	<u>3,022,049</u>
Total business-type activities	<u>3,328,141</u>	<u>-</u>	<u>(148,087)</u>	<u>3,180,054</u>	<u>158,005</u>	<u>3,022,049</u>
Total	<u>\$51,888,540</u>	<u>118,833</u>	<u>(2,687,433)</u>	<u>49,319,940</u>	<u>2,289,217</u>	<u>47,030,723</u>

1999 Tax Allocation Bonds

In June 1999, the Commission issued \$5,050,000 in Tax Allocation Bonds for the Q Avenue Redevelopment project. The bonds consist of \$1,085,000 in serial bonds which mature from 2000 to 2010 in amounts ranging from \$45,000 to \$125,000, and \$1,425,000 in term bonds which mature in 2019, and \$2,540,000 in term bonds which mature in 2029. Interest is payable semi-annually on February 1 and August 1, at interest rates ranging from 3.30% to 4.50%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 1999 Tax Allocation Bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 105,000	224,048	329,048
2008	110,000	219,586	329,586
2009	115,000	214,802	329,802
2010	120,000	209,690	329,690
2011	125,000	204,237	329,237
2012	130,000	198,175	328,175
2013	135,000	191,550	326,550
2014	145,000	184,550	329,550
2015	150,000	177,176	327,176
2016	155,000	169,550	324,550
2017	165,000	161,549	326,549
2018	175,000	153,050	328,050
2019	180,000	144,175	324,175
2020	190,000	134,925	324,925
2021	200,000	125,050	325,050
2022	210,000	114,543	324,543
2023	220,000	103,525	323,525
2024	235,000	91,866	326,866
2025	245,000	79,566	324,566
2026	260,000	66,625	326,625
2027	270,000	53,044	323,044
2028	285,000	38,822	323,822
2029	300,000	23,831	323,831
2030	<u>315,000</u>	<u>8,072</u>	<u>323,072</u>
Total	<u>\$4,540,000</u>	<u>3,292,007</u>	<u>7,832,007</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

2004 Tax Allocation Bonds

In June 2004, the Commission issued \$5,860,000 in Tax Allocation Bonds to finance a portion of the cost to construct a fire station, library, and community art center. The bonds consist of \$3,045,000 in serial bonds which mature from 2005-2015 in amounts ranging from \$220,000 to \$330,000, and \$1,085,000 in term bonds which matures in fiscal year 2029. Interest is paid semi-annually on February 1 and August 1, at interest rates ranging from 1.50% to 5.50%.

The annual debt service requirements for the 2004 Tax Allocation Bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 245,000	244,062	489,062
2008	250,000	238,300	488,300
2009	260,000	231,348	491,348
2010	265,000	223,534	488,534
2011	275,000	214,685	489,685
2012	285,000	204,880	489,880
2013	295,000	194,145	489,145
2014	305,000	182,440	487,440
2015	2,045,000	122,307	2,167,307
2016	330,000	61,263	391,263
2017	-	54,250	54,250
2018	-	54,250	54,250
2019	-	54,250	54,250
2020	-	54,250	54,250
2021	-	54,250	54,250
2022	-	54,250	54,250
2023	-	54,250	54,250
2024	-	54,250	54,250
2025	-	54,250	54,250
2026	-	54,250	54,250
2027	345,000	45,625	390,625
2028	360,000	28,000	388,000
2029	380,000	9,500	389,500
Total	<u>\$5,640,000</u>	<u>2,542,589</u>	<u>8,182,589</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

2005 Series A Tax Allocation Bonds

In January 2005, the Commission issued \$27,940,000 in Tax Allocation Bonds, Series A for the purpose of refunding the Commission's 2001 Series A Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 2.9% to 4.85% per annum.

The annual debt service requirements for the 2005 Series A Tax Allocation Bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,650,000	1,149,293	2,799,293
2008	1,705,000	1,091,543	2,796,543
2009	1,765,000	1,027,605	2,792,605
2010	1,840,000	957,005	2,797,005
2011	2,125,000	879,725	3,004,725
2012	3,060,000	788,350	3,848,350
2013	3,200,000	650,650	3,850,650
2014	3,345,000	503,450	3,848,450
2015	3,505,000	346,235	3,851,235
2016	<u>3,670,000</u>	<u>177,995</u>	<u>3,847,995</u>
Total	<u>\$25,865,000</u>	<u>7,571,851</u>	<u>33,436,851</u>

2005 Series B Tax Allocation Bonds

In January 2005, the Commission issued \$9,840,000 in Tax Allocation Bonds, Series B for the purpose of refunding the Commission's 2001 Series B Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 3.8% to 5.25% per annum.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 2005 Series B Tax Allocation Bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	444,693	444,693
2008	-	444,693	444,693
2009	-	444,693	444,693
2010	-	444,693	444,693
2011	-	444,693	444,693
2012	-	444,693	444,693
2013	-	444,693	444,693
2014	-	444,693	444,693
2015	-	444,693	444,693
2016	-	444,693	444,693
2017	760,000	444,693	1,204,693
2018	790,000	415,813	1,205,813
2019	825,000	385,003	1,210,003
2020	855,000	352,003	1,207,003
2021	890,000	317,803	1,207,803
2022	570,000	277,753	847,753
2023	595,000	253,528	848,528
2024	780,000	227,943	1,007,943
2025	815,000	194,013	1,009,013
2026	855,000	153,263	1,008,263
2027	555,000	110,513	665,513
2028	435,000	81,375	516,375
2029	250,000	58,538	308,538
2030	200,000	45,413	245,413
2031	210,000	34,913	244,913
2032	220,000	23,888	243,888
2033	235,000	12,338	247,338
Total	<u>\$9,840,000</u>	<u>7,835,723</u>	<u>17,675,723</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

Note Payable

The mortgage payable is secured by a deed of trust, bears interest at 6.5% and is payable to GMAC in the amount of \$3,718,928. The note is being repaid in monthly installments of \$30,005, including interest, through August 2019. The note is insured by HUD and is secured by substantially all property and equipment of the Morgan Towers Enterprise Fund.

The annual principal payments of the note payable outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 158,005	202,055	360,060
2008	168,587	191,473	360,060
2009	179,877	180,183	360,060
2010	191,923	168,137	360,060
2011	204,777	155,283	360,060
2012	218,492	141,568	360,060
2013	233,124	126,936	360,060
2014	248,736	111,324	360,060
2015	265,395	94,665	360,060
2016	283,170	76,890	360,060
2017	302,136	57,924	360,060
2018	322,368	37,692	360,060
2019	343,957	16,103	360,060
2020	<u>59,507</u>	<u>503</u>	<u>60,010</u>
Total	<u>\$3,180,054</u>	<u>1,560,736</u>	<u>4,740,790</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities. (Continued)

Defeasance of Debt

As of June 30, 2006, the outstanding balance of defeased issues are as follows:

2001 Series A Tax Allocation Bonds	\$26,675,000
2001 Series B Tax Allocation Bonds	10,260,000
1998 Tax Allocation Bonds	18,185,000

(8) Commitments and Contingencies

Grant funds received by the Commission are subject to review by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. The management of the Commission believes that such disallowances, if any, will not be significant.

(9) National City Joint Powers Financing Authority

The National Joint Powers Financing Authority ("JPFA") was created pursuant to a joint exercise of powers agreement entered into by and between the Commission and the City of National City on April 16, 1991. The purpose of such agreement was to provide for the financing and construction of the new police facility and Community Center. The JPFA is administered by a commission consisting of the members of the City Council and all voting power of JPFA resides in the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(10) Deferred Compensation

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The maximum salary deferral is \$7,500 per year.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust for the exclusive benefit of plan participants and/or beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. Since the plan is managed and assets are held in trust by an administrator other than the Commission, the assets are no longer included in the Commission's financial statements. The assets held by the plan administrator had a market value of \$565,477 at June 30, 2006.

(11) Employee Retirement System

Plan Description

The Commission contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and the Commission's Resolution. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Participants are required to contribute 7% of their annual covered salary. The Commission makes the contributions required of the Commission's employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and Commission contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 17.569% of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(11) Employee Retirement System, (Continued)

A summary of principle assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and Type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level % of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

The unfunded actuarial liability for the miscellaneous plan is amortized over a period ending June 30, 2034.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Required Supplementary Information

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/03	\$ 335,029,580	270,886,705	64,142,875	80.9%	75,357,937	85.1%
6/30/04	426,958,282	334,956,019	92,002,263	78.5%	90,667,029	101.5%
6/30/05	499,323,280	405,480,805	93,842,475	81.2%	108,618,321	86.4%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(11) Employee Retirement System, (Continued)

* Agencies with less than 100 members have been placed in a pool with other agencies that have similar benefit provisions. With the implementation of risk pooling, individual stand-alone valuations are no longer prepared. Instead the plan's financial results are pooled with the plans of other agencies. The data shown beginning with the June 30, 2003 valuation date represents data for the pool, rather than the individual Commission.

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	142,427	100%	-0-
6/30/05	241,262	100%	-0-
6/30/06	337,857	100%	-0-

(12) Accumulated Fund Deficits

The following funds reported deficits in fund balances as of June 30, 2006:

Special Revenue Funds:	
Section 8 Housing Assistance	\$(1,418,747)
Nutrition Program	(1,174,052)

(13) Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2006 exceeded the appropriations of the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Section 8 Housing Assistance	\$8,246,924	8,647,685	(400,761)
Home Loan Program	-	6,673	(6,673)
Redevelopment Debt Service Fund	-	4,522,416	(4,522,416)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(14) Restatement of Beginning Fund Balances

The accompanying financial statements reflect adjustments that resulted in the restatement of beginning fund balances of the HOME Program Fund and the Low and Moderate Income Housing Program Fund to adjust the balances of first time homebuyer loans at July 1, 2005. The following summarizes the effect of the prior period adjustments to the beginning fund balances as of July 1, 2005:

	<u>HOME Program</u>	<u>Low and Moderate Income Housing Program</u>	<u>Total Governmental Activities</u>
Fund balance – beginning of year, as previously reported	\$3,110,878	4,208,779	(12,141,392)
To adjust the balance for first time homebuyer loans at July 1, 2005	<u>777,450</u>	<u>(556,906)</u>	<u>220,544</u>
Fund balance - beginning of year, as restated	<u>\$3,888,328</u>	<u>3,651,873</u>	<u>(11,920,848)</u>

REQUIRED SUPPLEMENTARY INFORMATION

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to the Required Supplementary Information

Year ended June 30, 2006

(1) Budgetary Information

The Commission adopts an annual budget prepared on the modified accrual basis of accounting for all governmental fund types. The Executive Director is required to prepare and submit to the Commission Board of Directors the annual budget of the Commission and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Board of Directors. All annual appropriations lapse at fiscal year-end except for unexpended purchase orders or contracts and unexpended appropriations for capital projects. Total expenditures may not legally exceed total appropriations at the fund level.

(2) Required Disclosures

Expenditures for the year ended June 30, 2006 exceeded the appropriations of the following special revenue funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Section 8 Housing Assistance	\$8,246,924	8,647,685	(400,761)
Home Loan Program	-	6,673	(6,673)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Community Development Block Grant - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 1,259,999	1,259,999	1,324,219	64,220
HILP payments	-	-	224	224
Total revenues	<u>1,259,999</u>	<u>1,259,999</u>	<u>1,324,443</u>	<u>64,444</u>
Expenditures:				
Current:				
Personnel Services	-	-	13,444	(13,444)
Special Services	-	-	105,676	(105,676)
Community development	<u>1,259,999</u>	<u>1,259,999</u>	<u>405,508</u>	<u>854,491</u>
Total expenditures	<u>1,259,999</u>	<u>1,259,999</u>	<u>524,628</u>	<u>735,371</u>
Net change in fund balance	-	-	799,815	799,815
Fund balance (deficit), beginning of year	<u>(190,485)</u>	<u>(190,485)</u>	<u>(190,485)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (190,485)</u>	<u>(190,485)</u>	<u>609,330</u>	<u>799,815</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Section 8 Housing Assistance - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 8,246,924	8,246,924	7,967,957	(278,967)
Interest income	-	-	13,384	13,384
Total revenues	<u>8,246,924</u>	<u>8,246,924</u>	<u>7,981,341</u>	<u>(265,583)</u>
Expenditures:				
Current:				
Personnel Services	743,344	743,344	771,859	(28,515)
Special Services	291,080	291,080	338,965	(47,885)
Community development	7,209,500	7,209,500	7,532,354	(322,854)
Capital outlay	<u>3,000</u>	<u>3,000</u>	<u>4,507</u>	<u>(1,507)</u>
Total expenditures	<u>8,246,924</u>	<u>8,246,924</u>	<u>8,647,685</u>	<u>(400,761)</u>
Net change in fund balance	-	-	(666,344)	(666,344)
Fund balance (deficit), beginning of year	<u>(752,403)</u>	<u>(752,403)</u>	<u>(752,403)</u>	-
Fund balance (deficit), end of year	<u>\$ (752,403)</u>	<u>(752,403)</u>	<u>(1,418,747)</u>	<u>(666,344)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Home Loan Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 50,000	50,000	22,314	(27,686)
Other income	-	-	853	853
Total revenues	50,000	50,000	23,167	(26,833)
Expenditures:				
Current:				
Personnel Services	-	-	988	(988)
Special Services	-	-	5,000	(5,000)
Community development	-	-	685	(685)
Total expenditures	-	-	6,673	(6,673)
Net change in fund balance	50,000	50,000	16,494	(33,506)
Fund balance, beginning of year	3,339,041	3,339,041	3,339,041	-
Fund balance, end of year	\$ 3,389,041	3,389,041	3,355,535	(33,506)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

HOME Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 1,443,088	1,443,088	280,825	(1,162,263)
HILP payments	-	-	8,642	8,642
Total revenues	<u>1,443,088</u>	<u>1,443,088</u>	<u>289,467</u>	<u>(1,153,621)</u>
Expenditures:				
Current:				
Personnel Services	63,000	63,000	77,966	(14,966)
Special Services	100,000	100,000	-	100,000
Community development	<u>1,280,088</u>	<u>1,280,088</u>	<u>150,714</u>	<u>1,129,374</u>
Total expenditures	<u>1,443,088</u>	<u>1,443,088</u>	<u>228,680</u>	<u>1,214,408</u>
Net change in fund balance	-	-	60,787	60,787
Fund balance, beginning of year, as restated	<u>3,888,328</u>	<u>3,888,328</u>	<u>3,888,328</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,888,328</u>	<u>3,888,328</u>	<u>3,949,115</u>	<u>60,787</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Nutrition Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 347,713	347,713	290,460	(57,253)
Other income	<u>306,200</u>	<u>306,200</u>	<u>222,155</u>	<u>(84,045)</u>
Total revenues	<u>653,913</u>	<u>653,913</u>	<u>512,615</u>	<u>(141,298)</u>
Expenditures:				
Current:				
Personnel Services	556,708	556,708	479,174	77,534
Special Services	26,385	26,385	43,520	(17,135)
Community development	<u>310,734</u>	<u>310,734</u>	<u>358,996</u>	<u>(48,262)</u>
Total expenditures	<u>893,827</u>	<u>893,827</u>	<u>881,690</u>	<u>12,137</u>
Net change in fund balance	(239,914)	(239,914)	(369,075)	(129,161)
Fund balance (deficit), beginning of year	<u>(804,977)</u>	<u>(804,977)</u>	<u>(804,977)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (1,044,891)</u>	<u>(1,044,891)</u>	<u>(1,174,052)</u>	<u>(129,161)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Low and Moderate Income Housing Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 1,899,800	1,899,800	2,416,429	516,629
Interest income	15,000	15,000	19,305	4,305
Other income	<u>435,000</u>	<u>435,000</u>	<u>276,101</u>	<u>(158,899)</u>
Total revenues	<u>2,349,800</u>	<u>2,349,800</u>	<u>2,711,835</u>	<u>362,035</u>
Expenditures:				
Current:				
Personnel Services	77,962	77,962	43,738	34,224
Special Services	<u>-</u>	<u>-</u>	<u>7,070</u>	<u>(7,070)</u>
Total expenditures	<u>77,962</u>	<u>77,962</u>	<u>50,808</u>	<u>27,154</u>
Excess (deficiency) of revenues over expenditures	<u>2,271,838</u>	<u>2,271,838</u>	<u>2,661,027</u>	<u>389,189</u>
Other financing sources (uses):				
Transfers out	<u>(917,066)</u>	<u>(917,066)</u>	<u>(917,066)</u>	<u>-</u>
Total other financing sources (uses)	<u>(917,066)</u>	<u>(917,066)</u>	<u>(917,066)</u>	<u>-</u>
Net change in fund balance	1,354,772	1,354,772	1,743,961	389,189
Fund balance, beginning of year, as restated	<u>3,651,873</u>	<u>3,651,873</u>	<u>3,651,873</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,006,645</u>	<u>5,006,645</u>	<u>5,395,834</u>	<u>389,189</u>

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SUPPLEMENTARY INFORMATION

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Redevelopment Fund - Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Debt service:				
Principal payments	-	-	2,395,000	(2,395,000)
Interest and fiscal charges	-	-	2,127,416	(2,127,416)
Total expenditures	-	-	4,522,416	(4,522,416)
Excess (deficiency) of revenues over expenditures	-	-	(4,522,416)	(4,522,416)
Other financing sources (uses):				
Transfers in	-	-	4,522,416	4,522,416
Total other financing sources (uses)	-	-	4,522,416	4,522,416
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	2,739,122	2,739,122	2,739,122	-
Fund balance, end of year	\$ 2,739,122	2,739,122	2,739,122	-

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Redevelopment Fund - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 7,599,200	7,599,200	9,665,716	2,066,516
Subventions and grants	538,394	538,394	37,735	(500,659)
Interest income	180,000	180,000	299,892	119,892
Other income	8,138,720	8,138,720	809,366	(7,329,354)
Total revenues	16,456,314	16,456,314	10,812,709	(5,643,605)
Expenditures:				
Current:				
Personnel Services	2,119,713	2,119,713	1,813,184	306,529
Special Services	2,790,349	2,790,349	2,495,741	294,608
Community development	19,296,603	19,296,603	6,470,298	12,826,305
Capital outlay	83,250	83,250	71,682	11,568
Total expenditures	24,289,915	24,289,915	10,850,905	13,439,010
Excess (deficiency) of revenues over expenditures	(7,833,601)	(7,833,601)	(38,196)	7,795,405
Other financing sources (uses):				
Transfers out	(3,845,302)	(3,845,302)	(3,605,350)	239,952
Total other financing sources (uses)	(3,845,302)	(3,845,302)	(3,605,350)	239,952
Net change in fund balance	(11,678,903)	(11,678,903)	(3,643,546)	8,035,357
Fund balance, beginning of year	22,379,383	22,379,383	22,379,383	-
Fund balance, end of year	\$ 10,700,480	10,700,480	18,735,837	8,035,357

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Board of Directors

Community Development Commission of the City of National City

National City, California

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Community Development Commission of the City of National City ("Commission"), a component unit of the City of National City as of and for the year ended June 30, 2006, and have issued our report thereon dated November 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

During our review of internal controls over cash and investments, we noted that the Commission's cash and investments (held by both the Commission and its fiscal agent) had not been reconciled to the general ledger on a monthly basis. Sound internal controls dictate that the individual in charge of reconciling the cash and investment portfolio to the general ledger ensure that all cash and investment activities (i.e., purchases, sales, transfers, interest earnings) have been accurately and timely recorded in the general ledger. This procedure should be done soon after month end in order to efficiently detect and resolve any discrepancies or unauthorized transactions that might occur.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we considered the reportable condition described above to be a material weakness. We also noted other immaterial matters involving internal control over financial reporting which we have reported to management in a separate letter dated November 30, 2006.



Board of Directors
Community Development Commission of the City of National City
National City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit committee, management, and the State Controller and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 30, 2006